



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 5, 2006

TO: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF HOUSE OF BETHESDA, INC. – A GROUP HOME
FOSTER CARE CONTRACTOR**

Attached is our audit report on the fiscal operations of the House of Bethesda, Inc. (Bethesda or Agency) from January 1, 2003 through December 31, 2003. Bethesda is licensed to operate a group home with a resident capacity of six children between the ages of thirteen through seventeen. For calendar year 2003, the Agency received a total of \$311,650 in foster care funds from the County. Bethesda is located in the Second Supervisorial District.

Scope

The purpose of our review was to determine whether Bethesda complied with its contract terms, and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with federal, State, and County fiscal guidelines governing the disbursement of group home foster care funds.

SUMMARY OF FINDINGS

We identified a total of \$5,506 in questioned costs, and \$2,678 clothing allowance funds that were not expended as required by the Agency's contract with the County. The Agency needs to strengthen its internal controls over payroll/personnel records, and the reporting of an independent contractor's income. In addition, the Agency's

"To Enrich Lives Through Effective and Caring Service"

Board of Directors is not independent in accordance with the California Corporations Code. Finally, the Agency did not have the required Workers' Compensation insurance coverage during our audit period. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the questioned costs and clothing allowance funds and, if appropriate, collect all disallowed amounts. In addition, DCFS needs to ensure that Bethesda's management takes appropriate corrective actions to address the recommendations in this report. DCFS should also monitor to ensure that the corrective actions taken result in permanent changes.

REVIEW OF REPORT

A draft audit report was provided to Bethesda's management for their review. However, the Agency's management declined a formal exit conference. Bethesda's response, which is incorporated into DCFS' Corrective Action Plan (attached), indicates general agreement with our findings and recommendations. We thank Bethesda's management and staff for their cooperation during our review.

Please call if you have any questions, or your staff may contact Jim Schneiderman at (626) 293-1101.

JTM:MMO:JLS:MM

Attachment

c: David E. Janssen, Chief Administrative Officer
David Sanders, Ph.D., Director, Department of Children and Family Services
House of Bethesda, Incorporated
Robert Smith, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Public Information Office
Audit Committee
Commission for Children and Families

FISCAL REVIEW OF HOUSE OF BETHESDA, INCORPORATED
REVIEW OF GROUP HOME FOSTER CARE CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) and Probation Department contract with House of Bethesda, Incorporated, (Bethesda or Agency) for the Agency to provide the basic needs and services for foster care children placed in the Agency's care. The Agency is licensed to operate a group home with a resident capacity of six children between the ages of thirteen and seventeen. Bethesda is located in the Second Supervisorial District.

Under the provisions of the contract, the County pays Bethesda a monthly rate for each child based on the Group Home Annual Rate determined by the California Department of Social Services (CDSS). During our review period, January 1, 2003 through December 31, 2003, Bethesda received a monthly rate of \$4,858 per child placed in the group home, for a total of \$311,650 in foster care funds from the County.

APPLICABLE REGULATIONS AND GUIDELINES

Bethesda is required to operate its group home in accordance with certain federal, State, and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- Group Home Contract, including Exhibit I, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

REVIEW OF EXPENDITURES & UNSPENT CLOTHING FUNDS

We identified a total of \$5,506 in unsupported/inadequately supported expenditures, unallowable expenditures and \$2,678 in unexpended clothing funds. Details of these issues are listed below.

Unsupported/Inadequately Supported Expenditures

The A-C Handbook, Section A.3.2, states that all expenditures must be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed on audit. The A-C Handbook also states that all credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchases. We identified \$4,591 in expenditures that were either not supported or were not adequately supported. Specifically, we noted the following:

- \$3,279 in inadequately supported credit card charges. During the period reviewed, the Agency used two credit cards (Mobil and Union 76) for gas purchases. The Agency only provided us with the monthly credit card statements, and did not provide itemized receipts or invoices. Without itemized receipts identifying the vehicle that was serviced, or the vehicle for which fuel was purchased, we could not determine if these charges were for the group home's activities. Section B.2.4 of the A-C Handbook states that all credit card disbursements must be supported by original invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. Credit card statements are not sufficient support for credit card purchases.
- \$1,312 in petty cash expenditures with no receipts or other supporting documents to justify the expenditures. Section B.2.3 of the A-C Handbook states that petty cash disbursements must be supported by invoices, store receipts or other external authenticating documents indicating the item purchased and the employee making the purchase. In addition, we noted that the Agency's petty cash logs monthly balances do not agree to the general ledger's petty cash balances. This was due to three petty cash deposits in January 2003 and April 2003, ranging from \$100 to \$150, that were either recorded in the petty cash logs, but not in the general ledger; or were recorded in the general ledger, but not in the petty cash logs. The Agency needs to ensure that all petty cash transactions are properly recorded in both the general ledger and petty cash logs.

Unallowable Expenditures**Penalties, Interest and Other Unallowable Costs**

- \$736 in penalties, interest and other unallowable costs. The Agency paid \$391 to the Internal Revenue Service (IRS) as a late payment penalty on payroll taxes, and \$98 in late fees and finance charges for credit card bills. According to Sections 16 and 23 of Attachment B to the Circular, fines, penalties, and interest payments are unallowable costs. The Agency also paid \$247 in phone charges for access to an adult entertainment web site.
- \$179 in duplicate payments to Sprint for September telephone charges. The Agency was not able to provide documentation indicating that Sprint ultimately credited the duplicate payment back to the Agency. Section C.1.5 of the A-C Handbook indicates that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program are allowable.

Unspent Clothing Funds

Section 22.5 of the Statement of Work in Bethesda's contract with the County requires the Agency to provide a regular monthly allocation of at least \$50 per child to be spent on clothing. However, these guidelines also allow Bethesda to carry over up to \$100 in clothing allowances per child.

Based on the contract requirements, Bethesda should have spent approximately \$6,111 for clothing during our audit period. However, the Agency's general ledger and receipts only showed \$3,433 in clothing expenditures. Therefore, Bethesda spent \$2,678 less for clothing than required under the Agency's contract with the County. The majority of the unspent clothing allowances appear to be related to children who were no longer placed with Bethesda as of December 31, 2003. DCFS needs to determine if Bethesda ultimately expended the contractually required amount on clothing for placed children. If DCFS determines that Bethesda did not spend the required funds on clothing and the children no longer reside with the Agency, DCFS needs to recover the unspent funds. The Agency should also report any unspent clothing funds to DCFS once children no longer reside with the Agency.

Recommendations

1. **DCFS management resolve the \$8,184 in questioned costs and unspent clothing funds and, if appropriate, collect any disallowed amounts and/or unexpended clothing funds.**

In order to appropriately account for group home funds, and administer the program in compliance with the terms of their agreement with the County, Bethesda should implement the following recommendations:

Bethesda management:

- 2. Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**
- 3. Ensure that petty cash transactions are properly recorded in the petty cash log and the general ledger.**
- 4. Ensure that foster care funds are used only for allowable expenditures to carry out the contract programs.**
- 5. Report any unspent clothing funds for children who no longer reside at the Agency to DCFS.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

During our review, we noted several contract compliance issues and internal control weaknesses. DCFS should ensure that Bethesda management takes appropriate corrective action measures to address each of the internal control recommendations discussed below. DCFS should also monitor Bethesda to ensure that the corrective actions result in permanent changes.

Board of Directors Independence

Section 5227 of the California Corporations Code states that not more than 49% of the persons serving on the board of any corporation may be "interested persons." "Interested persons" are: (1) Any person currently being compensated by the corporation for services rendered to it within the previous 12 months, whether as a full- or part-time employee, independent contractor, or otherwise, excluding any reasonable compensation paid to a director as director; or (2) Any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person.

Both the Agency's Executive Director and his brother-in-law are members of Bethesda's three-member Board. As a result, two-thirds of the Agency's Board is comprised of

interested parties. This exceeds the limit in the California Corporations Code. We recommend that Bethesda management ensure that the Agency complies with the California Corporation Code requirement for independent Board members.

Recommendation

- 6. Bethesda management ensure that the Agency complies with the California Corporations Code requirement for independent Board members.**

Insurance Coverage Requirements

Section 30 of the Agency's contract with the County requires the Agency to carry Workers' Compensation insurance. We noted that the Agency did not have the required insurance during our audit period. Agency management indicated that they are in the process of acquiring Workers' Compensation insurance. Bethesda management needs to ensure that the Agency carries Workers' Compensation insurance as required by its contract with the County.

Section 29 of the Contract requires the Agency to submit evidence of insurance coverage to DCFS. When we asked DCFS for the Agency's insurance certificates, DCFS Contracts Administration section indicated that they could not find any insurance certificates for Bethesda. DCFS management needs to ensure that Bethesda maintains the appropriate insurance coverage and provides evidence of insurance as required by the Contract.

Recommendations

- 7. Bethesda management ensure that the Agency carries the required Workers' Compensation insurance.**
- 8. DCFS management ensure that Bethesda maintains the appropriate insurance coverage and provides evidence of insurance as required by the Contract.**

Internet Access Controls

As noted earlier, our review of Bethesda's phone bills disclosed that the Agency paid \$247 in phone charges for access to an adult entertainment web site. The access to an inappropriate internet site was made by a foster child and lasted approximately one-half hour. After we informed the Executive Director of this incident, he indicated that he

would instruct the facility manager and staff to more closely monitor computer usage by foster children, and control access to the internet by using password protection. However, once a child is logged onto the internet, password protection cannot prevent the child from accessing inappropriate web sites. Blocking children's access to inappropriate sites requires the use of the computer's operating system and internet browser controls.

We recommend that Bethesda management ensure that the Home's computer operating system, and internet browser parental controls and security settings are set to block children's access to inappropriate websites. If these methods are insufficient, the Agency should research and purchase additional software to prevent children's access to inappropriate web sites.

Recommendation

- 9. Bethesda management ensure the Home's computer operating system, and internet browser parental controls and security settings are set to block children's access to inappropriate websites. If these methods are insufficient, the Agency should research and purchase additional software to prevent children's access to inappropriate websites.**

Accounting Procedures

Employee Benefits Log

Section B.3.2 of the A-C Handbook states that employee benefit balances (e.g., sick time, vacation, personal time, etc.) should be maintained on at least a monthly basis. Benefit balances should be increased as benefit hours are earned and decreased as hours are used.

We reviewed Bethesda's accounting procedures and noted that the Agency does not maintain an employee benefits log to track employee vacation time. The Agency indicated that each full-time employee earns one week of vacation after one year of employment, two weeks after 10 years, three weeks after 15 years, and four weeks after 20 years. The Agency only documents the days taken off on a calendar. This is not an adequate method of tracking benefit balances because it does not indicate how many vacation days have been accumulated and earned by the employees. The calendar only indicates how many days were used. Bethesda should prepare and maintain a log to track the accumulation and usage of employee benefits as required by the A-C Handbook.

Invoices Not Marked “Paid”

Section B.2.1 of the A-C Handbook states that all supporting documentation shall be referenced to check numbers and marked “paid” or otherwise cancelled to prevent reuse or duplicate payments. Three of the 17 (18%) transactions we sampled had supporting documentation which were not marked “paid” or otherwise cancelled, and did not have the check number referenced to the supporting documentation.

Recommendations

Bethesda management:

- 10. Prepare and maintain a log to track the accumulation and usage of employee benefits.**
- 11. Ensure that all supporting documentation is consistently referenced to check numbers and marked “paid” or otherwise cancelled to prevent reuse or duplicate payments.**

Payroll/Personnel Controls

Bethesda’s payroll and personnel procedures are not in compliance with CDSS MPP, Section 11-402, which requires supporting documentation to be maintained for all program expenditures, including employee salary rates. In addition, Attachment B of the Circular, Section 7.m. states that employee salaries and wages must be supported by records indicating the total number of hours worked each day, and that the employee timecards records must be signed by the employee and approved by a supervisor.

We sampled the personnel files and payroll records of 13 employees and noted the following:

- Six (46%) employee personnel files did not contain a salary approval sheet.
- One timecard for the Executive Director was approved by the Executive Director.

Recommendations

Bethesda management ensure:

- 12. Employee personnel files contain current authorized salary amounts or hourly rates of pay approved by management.**
- 13. The Executive Director's timecards are approved in writing by a Board member to certify the accuracy of the reported time.**

Reporting of Independent Contractor Earnings

Section 18 of Bethesda's contract with the County requires the Agency to comply with all applicable laws and regulations, including those related to the reporting of income to the appropriate federal and State taxing agencies. In addition, Section A.2.6 of the A-C Handbook states that the contractor will ensure compliance with all applicable federal and State requirements including properly reporting and filing Form 1099s to the taxing agencies.

We noted that the Agency did not issue a Form 1099 to report \$950 paid to one of the Agency's independent contractors.

Recommendation

- 14. Bethesda management ensure that all income paid to independent contractors is properly reported to the federal and State taxing agencies.**



DAVID SANDERS, Ph.D.
Director

County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
425 Shatto Place -- Los Angeles, California 90020
(213) 351-5602

Board of Supervisors
GLORIA MOLINA
First District
YVONNE B. BURKE
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

April 5, 2006

Robert Smith Executive Director
House of Bethesda, Inc.
P.O. Box 5363
Inglewood, CA 90310

Dear Mr. Smith:

**REQUEST FOR ADDENDA REGARDING FISCAL CORRECTIVE ACTION PLAN
SUBMITTED IN RESPONSE TO THE AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT
ON HOUSE OF BETHESDA, INC. - A GROUP HOME CONTRACTOR**

This is in response to your fiscal corrective action plan (FCAP) dated March 24, 2006. Based on the FCAP, all of the 12 recommendations directed to your Agency were partially addressed. The two recommendations directed to DCFS were also partially addressed (See Attachment I). In regard to the \$8,184 in questioned costs, your agency agreed that the total amount remain disallowed and must be repaid (See Attachment II).

DCFS requires that House of Bethesda address the twelve recommendations directed to you and partially addressed and either submit to me a check payable to DCFS in the amount of \$8,184 or make an appointment with me to establish a repayment plan by April 19, 2006. Please submit your documentation to:

Sue Harper, ASM III
Fiscal Monitoring & Special Payments
725 S. Grand Ave., Room 1462
Glendora, CA 90040

Failure to respond by the date set above may result in DCFS taking administrative action in accordance with your contract. If you have any questions or need further information, please contact me at (626) 691-1462.

Sincerely,

Signed Copy on File

Sue Harper, ASM III
Fiscal Monitoring and Special Payments

Attachments

C: Mike McWatters, Auditor-Controller

**FISCAL CORRECTIVE ACTION PLAN (FCAP) IN RESPONSE TO
THE AUDITOR-CONTROLLER'S FISCAL REVIEW OF THE HOUSE OF
BETHESDA HOME FOR BOYS, INC. – A GROUP HOME CONTRACTOR**

Summary of Recommendations:

- 2 Recommendations (#1 and #8) directed to the Department were partially addressed.
- 12 Recommendations (#2 through #7 and #9 through #14) directed to the agency were partially addressed.

Recommendations Directed to DCFS – Partially Addressed

1. **DCFS management resolve the \$8,184 in questioned costs and unspent clothing funds and, if appropriate, collect any disallowed amounts and/or unexpended clothing funds.**

FCAP: The House of Bethesda Home for Boys, Inc. (The House of Bethesda) stated in their FCAP that they accept the finding and will repay the \$8,184 in 12 monthly installments. **Please contact Sue Harper at (626) 691-1462 to schedule an appointment to sign a repayment agreement to pay 12 monthly installments of \$682.00 each. (See Attachment II.)**

8. **DCFS management ensure that Bethesda maintains the appropriate insurance coverage and provides evidence of insurance as required by the Contract.**

FCAP: The House of Bethesda stated in their FCAP that corrective action was completed on this recommendation. **Verification has been requested from DCFS Contract Management Services that proof of insurance coverage has been received from House of Bethesda.**

Recommendations Directed to the Agency – Partially Addressed

2. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

FCAP: The House of Bethesda stated in their FCAP that they accept the finding and will immediately implement the recommendation to maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

3. **Ensure that petty cash transactions are properly recorded in the petty cash log and the general ledger.**

FCAP: The House of Bethesda stated in their FCAP that they accept the finding and will immediately implement the recommendation to ensure that petty cash transactions are properly recorded in the petty cash log and the general ledger. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

4. **Ensure that foster care funds are used only for allowable expenditures to carry out the contract programs.**

FCAP: The House of Bethesda stated in their FCAP that they accept the finding and will immediately implement the recommendation to ensure that foster care funds are used only for allowable expenditures to carry out the contract programs. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

5. **Report any unspent clothing funds for children who no longer reside at the Agency to DCFS.**

FCAP: The House of Bethesda stated in their FCAP that they accept the finding and will immediately implement the recommendation to ensure that any unspent clothing funds for children who no longer reside at the Agency are reported to DCFS. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

6. **Bethesda management ensure that the Agency complies with the California Corporations Code requirement for Independent Board members.**

FCAP: The House of Bethesda stated in their FCAP that their management ensures that the Agency complies with the California Corporations Code requirement for Independent Board members. Hence, the Agency will recruit Board members that comply with the California Corporations Code requirement for independent Board members. The agency stated this would be accomplished by the end of the fiscal year, June 30, 2006. **Please submit documentation such as a roster of the Board members, indicating which of the Board members are "interested persons" no later than June 30, 2006 to ensure compliance with the recommendation.**

7. **Bethesda management ensure that the Agency carries the required Workers' Compensation insurance.**

FCAP: The House of Bethesda stated in their FCAP that they purchased the required Workers' Compensation insurance immediately upon receiving the recommendation of the auditors. **Please submit documentation such as proof of insurance to ensure compliance with the recommendation.**

9. **Bethesda management ensure the Home's computer operating system, and Internet browser parental controls and security settings are set to block children's access to inappropriate websites. If these methods are insufficient, the Agency should research and purchase additional software to prevent children's access to inappropriate websites.**

FCAP: The House of Bethesda stated in their FCAP that corrective action was completed on this recommendation. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

10. **Bethesda management prepare and maintain a log to track the accumulation and usage of employee benefits.**

FCAP: The House of Bethesda stated in their FCAP that corrective action was completed on this recommendation. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

11. **Ensure that all supporting documentation is consistently referenced to check numbers and marked "paid" or otherwise cancelled to prevent reuse or duplicate payments.**

FCAP: The House of Bethesda stated in their FCAP that corrective action was completed on this recommendation. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

12. **Bethesda management ensure that employee personnel files contain current authorized salary amounts or hourly rates of pay approved by management.**

FCAP: The House of Bethesda stated in their FCAP that corrective action was completed on this recommendation. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

13. **The Executive Director's timecards are approved in writing by a Board member to certify the accuracy of the reported time.**

FCAP: The House of Bethesda stated in their FCAP that corrective action was completed on this recommendation. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

14. **Bethesda management ensure that all income paid to independent contractors is properly reported to the Federal and State taxing agencies.**

FCAP: The House of Bethesda stated in their FCAP that corrective action was completed on this recommendation. **Please submit documentation such as policies/procedures to ensure compliance with the recommendation.**

/skh
4-5-06

ATTACHMENT II

DCFS RESPONSE TO HOUSE OF BETHESDA
APRIL 5, 2006 FISCAL CORRECTION ACTION PLAN (FCAP)

COSTS ALLOWED BY DCFS	UNRESOLVED AMOUNT	COSTS DISALLOWED BY DCFS	DCFS' S RESPONSE TO TOTAL IN QUESTIONED COSTS \$8,184
		\$ 3,279	Unsupported/Inadequately Supported Expenditures - Credit Card Charges
		1,312	Unsupported/Inadequately Supported Expenditures - Petty Cash
		736	Unallowable Expenditures - Penalties, Interest and Other Costs
		179	Unallowable Expenditures - Duplicate payments
		2,678	Unspent Clothing Funds

\$ - 0 \$ 8,184 Total Disallowed by DCFS

QUESTIONED COSTS \$ 8,184

AMOUNT ALLOWED \$ -
AMOUNT DISALLOWED 8,184

4/3/06 FCAP submitted to DCFS by Agency proposed 12 monthly payments. Need signed repayment agreement for 12 payments at \$682 each beginning May 2006

SKH
4/5/2006